

# REPORT OF THE SUPERVISORY BOARD

In the previous financial year, Deutsche Beteiligungs AG achieved above-average performance and greatly exceeded expectations. Five new portfolio companies lay a promising foundation for future success.



**ANDREW RICHARDS**  
*Chairman of the Supervisory Board*

In the financial year 2016/2017 (1 October 2016 to 30 September 2017), we dealt with the position and development of the Company in depth. We consistently and conscientiously discharged the duty of overseeing the managerial activities of the Board of Management required of us by law, the Articles of Association and the rules of procedure. The Board of Management regularly provided the Supervisory Board with comprehensive and prompt information, both in writing and verbally, about the Company's course of business, its asset, financial and earnings position, the competitive environment and the prospects, as well as the risk management and compliance systems installed at DBAG. We discussed these issues in detail. Any divergences from the planned course of business were elucidated and substantiated by the Board of Management. The Board of Management also reported on strategic and major operational decisions as well as on the business policies it intends to pursue.

## **Supervisory Board meetings in the reporting year**

In the financial year 2016/2017, the Supervisory Board held eight meetings, three of which were telephone conferences. Among other things, the telephone conferences served informational purposes regarding imminent investment projects as well as allowing for the passing of resolutions on the amount of variable income components for the Board of Management. In several instances, the Supervisory Board met without the attendance of the Board of Management.

An integral part of the Board meetings were detailed reports on current developments in individual portfolio companies. We received comprehensive quarterly reports in writing on those issues from the Board of Management. We were informed promptly and comprehensively about investments that were not performing as expected.

At the first regular meeting held on **27 OCTOBER 2016**, we looked at the preliminary earnings of DBAG and the DBAG Group for 2015/2016. We discussed the dividend proposal put forward by the Board of Management and passed a unanimous resolution on the submission of this proposal to the 2017 Annual Meeting. At this meeting, the Board of Management also reported on the capital increase in September 2016, on the raising of new funds for DBAG ECF and on the Company's market and competitive situation. The Board of Management also provided us with information on the progress made in talks with the German Federal Financial Supervisory Authority (BaFin) in connection with DBAG's regulatory status. At the meeting, we were involved in the Corporate Governance Statement and submitted the Declaration of Conformity as well as the joint report by the Board of Management and the Supervisory Board on the corporate governance practised at DBAG. We also discussed, and made decisions on, amendments to the rules of procedure that apply to the Supervisory Board and the Board of Management.

At our scheduled meeting on **14 DECEMBER 2016**, the auditors reported on the results of their audit of the separate financial statements and the consolidated financial statements at 30 September 2016. We adopted the separate financial statements and approved the consolidated financial statements for the financial year 2015/2016. We also approved the agenda for the 2017 Annual Meeting. We followed the Board of Management's proposal of subjecting the 2016/2017 half-yearly financial statements to a review by the auditors. We also took a detailed look at the results of a random sample examination of the consolidated financial statements at 30 September 2015 conducted by the Financial Reporting Enforcement Panel (FREP) (enforcement procedure), which had resulted in an error being identified. The Board of Management informed us that it planned to object to the identification of the error and was aiming for the continuation of the procedure at the level of the German Federal Financial Supervisory Authority. In addition, the Board of Management once again provided us with information on the progress made in talks with the German Federal Financial Supervisory Authority in connection with DBAG's regulatory status.

Our meeting held after the Annual Meeting on **22 FEBRUARY 2017** focused on the further development of the regulatory structure of the DBAG Group. After obtaining detailed information from legal advisors and following intensive discussions, we approved the Board of Management's proposal that DBAG

limit its activities to providing advice to the DBAG funds in the future and have a Group company provide the fund management services. In particular, we approved all measures and the conclusion of the associated agreements.

On **8 MAY 2017**, the Board of Management informed us of the initiation of the procedure, in accordance with the German Capital Investment Code (Kapitalanlagegesetzbuch – KAGB), to register DBG Managing Partner GmbH & Co. KG (DBG MP KG) as the future capital management company (KVG) of the DBAG Group and provided information on the course of the procedure to date. The Board of Management also informed us of DBAG's position as an investor in the automotive supply industry and presented its assessment of further developments in this key sector of DBAG. Given the progress made with regard to the previous implementation deadlines for the gender ratios in the Board of Management and the Supervisory Board, we decided to apply unchanged ratios with new implementation deadlines.

At the meeting held on **8 SEPTEMBER 2017**, we decided, following intensive discussions and based on the two resolution proposals put forward by the Audit Committee, in line with the latter's preference, to propose to the 2019 ordinary Annual Meeting that BDO AG Wirtschaftsprüfungsgesellschaft be selected as the auditor of the annual financial statements for the financial year 2018/2019. A considerable amount of time during the meeting was dedicated to the strategic further development of DBAG: the Board of Management reported, among other things, on the results of a project to optimise internal structures and processes. We approved the resulting new business distribution plan. At the same meeting, the Board of Management reported that DBG MP KG had since been registered as a capital management company by the German Federal Financial Supervisory Authority and had assumed responsibility for the management of the German investment entities of the DBAG funds. It reported that DBAG had returned its registration as a capital management company subject to the condition of a corresponding amendment being made to the business purpose of DBAG in the commercial register. The Board of Management informed us of status proceedings initiated by a shareholder with the intention of clarifying whether the Supervisory Board of DBAG had been constituted in a lawful manner. The 2017/2018 budget and the updated medium-term planning up to the financial year 2019/2020 were presented to us by the Board of Management. Given the prolonged low interest rate period, we looked at the impact of low interest

rates on the amount of the pension provisions; we acknowledged calculations showing that interest rate developments did not pose any major risk to our dividend capacity. We also discussed the method selected by the Board of Management for calculating the cost of equity and confirmed this method. We were also involved in the Corporate Governance Statement and submitted the Declaration of Conformity as well as the joint report by the Board of Management and the Supervisory Board on the corporate governance practised at DBAG. Finally, we discussed the outcome of the efficacy evaluation that we perform on a regular basis. Based on these results, we found that there was no need to make any fundamental changes to collaboration within the Supervisory Board and between the Supervisory Board and the Board of Management.

Between meetings, the Spokesman of the Board of Management promptly informed the Chairperson of the Supervisory Board about significant business issues, after which the complete Supervisory Board was briefed accordingly on each issue. We were involved in all material decisions.

We unanimously granted our approval to the Board of Management's proposed resolutions on the internal reorganisation of the DBAG Group, which was motivated by regulatory reasons. The same applied to the proposals to grant three members of the management team commercial power of attorney (Prokura). There were no other transactions requiring our consent in the financial year 2016/2017.

This past financial year, the Supervisory Board and the Audit Committee met in the presence of all of its members, with one exception in each case: Mr Roggemann was unable to take part in one meeting of the Supervisory Board and one meeting of the Audit Committee.

All Board members attended the meetings of the Executive Committee during the reporting period.

## Corporate Governance

We regularly evaluate the efficacy of our work on the Supervisory Board. We also follow the developments in corporate governance practices taking place in Germany on an ongoing basis. The Board of Management's report on the Company's corporate governance is also presented on behalf of the Supervisory Board; we publish that report in the Annual Report (see pages 220 to 223) and also make it accessible to

the general public on the Company's website together with the Corporate Governance Statement. The Board of Management and the Supervisory Board jointly submitted their yearly Declaration of Conformity in September 2017 based on the German Corporate Governance Code amended at 7 February 2017 (§ 161 German Stock Corporation Act – AktG), which is permanently accessible to any interested party on the Company's website.

In accordance with the recommendations of the Code, every Supervisory Board member is required to disclose to the Supervisory Board any conflict of interest that may possibly arise. There was no notice of a conflict-of-interest issue this past financial year.

To disseminate its responsibilities and increase efficiency, the Supervisory Board formed an Executive Committee, which also performs the functions of a Nominations Committee, as well as an Audit Committee. The committees' chairpersons regularly reported to the Supervisory Board on the work of their committees.

### Work of the Executive Committee (also acts as Nominations Committee)

The Executive Committee convened twice this past financial year: on 16 October 2016, it used a telephone conference to set the short-term performance-related and the long-term component of the remuneration paid to Board of Management members for the financial year 2015/2016. The Supervisory Board approved the recommendation following an in-depth discussion during a telephone conference on 19 October 2016. At a face-to-face meeting held on 23 January 2017, the Executive Committee discussed further Board of Management matters.

In the financial year 2016/2017, there were no meetings of the Executive Committee in its capacity as a Nominations Committee.

### Work of the Audit Committee

The Audit Committee held a total of eleven meetings this past financial year. It initially addressed issues concerning the separate and consolidated financial statements, the half-yearly

financial report and the quarterly statements, all of which were discussed with the Board of Management prior to their publication. Two issues were given particular attention in the meetings held in the financial year 2016/2017: the preliminary identification of an error by the FREP following a random sample examination of the consolidated financial statements for 2014/2015 and the ensuing procedure at the level of the German Federal Financial Supervisory Authority, as well as the tender for the audit of the annual financial statements of DBAG and the DBAG Group at 30 September 2019.

In the meeting held on **27 OCTOBER 2016**, for example, the provisional earnings for the financial year 2015/2016 were presented. We discussed the dividend proposal and recommended that the Supervisory Board approve the proposal. The auditors reported on the status and initial results of the audit of the annual financial statements. At this and other meetings held over the course of the financial year, the Board of Management reported on the progress made in the enforcement procedure; we held intensive discussions with the Board of Management on the possible courses of action, and our meeting held on **12 DECEMBER 2016** was dedicated entirely to the results of the FREP assessment.

During a telephone conference held on **18 NOVEMBER 2016**, we discussed a number of issues including, first of all, the draft consolidated and separate financial statements at 30 September 2016 and the audit reports on both annual financial statements, before recommending, on **14 DECEMBER 2016**, that the Supervisory Board adopt the separate financial statements and approve the consolidated financial statements.

On **7 FEBRUARY 2017**, we discussed the interim financial statements at 31 December 2016 and the quarterly statement.

The tender and selection procedure for the audit of the annual financial statements for the financial year 2018/2019 pursuant to Art. 16 (3) of Regulation (EU) No 537/2014 of the European Parliament and of the Council at 16 April 2014 (EU Audit Regulation) was on our agenda on **22 FEBRUARY 2017** and on **25 APRIL 2017**. We made use of the opportunity to delegate the organisation of the tender procedure to the Company, although all of the key decisions relating to the tender were made by us, as the executive body responsible for the tender and selection procedure. This meant that we approved the tender scope and schedule, as well as the selection criteria and

procedures. We also approved the list of the auditing companies that were to be invited to apply alongside the public tender. Once the applications had been received, we discussed them and reached a decision on the selection of applicants that would be asked to submit an offer. After the selected applicants introduced themselves in person at a face-to-face meeting held on **28 AUGUST 2017**, we submitted two recommendations to the Supervisory Board, with a clear preference for one auditing company that is to be proposed as the new auditor to the 2019 ordinary Annual Meeting.

On **8 MAY 2017**, the auditors reported on the outcome of the review of the interim financial statements at 31 March 2017, which we also discussed with the Board of Management at this meeting.

On **7 AUGUST 2017**, we looked at the interim financial statements and the quarterly statement at 30 June 2017 and were provided with information on the current status of the tender procedure and the enforcement procedure.

At our meeting held on **8 SEPTEMBER 2017**, we acknowledged the internal audit report, which addressed the processes and precautions to prevent insider trading and addressed reporting to the Supervisory Board. We also acknowledged the Board of Management's risk report. In connection with planning the audit of the annual financial statements at 30 September 2017 and the focal points of the audit, the auditors explained the draft audit opinion, which would be issued in a new, more comprehensive form for the first time due to changes in its statutory basis. The auditors also drew our attention to particularly important audit matters that they wanted to address in the audit opinion.

We monitored the accounting process as well as the effectiveness of the internal control and auditing system and the risk management system. From our point of view, there were no grounds for objections to the Company's current practices. We reviewed the required independence and objectivity of the Company's auditors and the additional services the auditors provide (non-audit services). We also discussed the determination of the audit's focal points and audit fees.

We continue to comply in multiple ways with the requirements under §§ 100 (5), 107 (4) of the German Stock Corporation Act (Aktiengesetz – AktG), which stipulate that at least one independent member of the Supervisory Board or Audit Committee

must have expert knowledge of accounting or auditing. Gerhard Roggemann, the Chairman of the Audit Committee, who is also Vice Chairman of the Supervisory Board and beyond that is an independent member of the Supervisory Board in terms of the German Corporate Governance Code, has profound knowledge of and experience in the application of accounting principles and internal control processes.

### Separate and consolidated financial statements endorsed

Prior to recommending KPMG AG Wirtschaftsprüfungsgesellschaft (KPMG), Frankfurt am Main, for election as auditors for the financial year 2016/2017 to shareholders at the Annual Meeting, the Supervisory Board requested and received an independence statement from KPMG. Subsequent to the 2017 Annual Meeting, at which our recommendation was adopted, the Chairman of the Supervisory Board commissioned KPMG to perform the audit. The auditors were required to immediately report all major findings and occurrences to us that might come to light during the audit. At a meeting of the Audit Committee on 8 September 2017, the auditors presented their audit plan.

KPMG audited the separate financial statements of Deutsche Beteiligungs AG for the financial year 2016/2017 and the combined management report on Deutsche Beteiligungs AG and the Group, including the underlying accounting, and endorsed them with an unqualified certificate. The same applies to the consolidated financial statements for the financial year 2016/2017. The consolidated financial statements were drawn up in conformity with the International Financial Reporting Standards (IFRS). The auditors confirmed that the consolidated financial statements comply with the IFRS, as adopted by the European Union, and the additional requirements of German commercial law pursuant to § 315a (1) of the German Commercial Code (Handelsgesetzbuch – HGB), and that the consolidated financial statements in their entirety present a true and fair view of the position of the Group as well as the opportunities and risks involved in its future development.

The Supervisory Board received the audited and certified financial statements of Deutsche Beteiligungs AG for the year ending 30 September 2017 and the combined management report on the state of Deutsche Beteiligungs AG and the Group in due time, reviewed them in conjunction with the report of the Chairman of the Audit Committee and the auditors, and

discussed these documents in detail with the Board of Management in the presence of the auditors. The same applies to the consolidated financial statements as well as to the recommendation for the appropriation of profits.

The auditors explained the findings gathered within the scope of the pre-audit at our meeting on 15 November 2017. At our meeting on 1 December 2017 as well as the meeting of the Audit Committee on the same day, the auditors reported on the results of their audit. There were no grounds for objection. The auditors also reported on the services they rendered in addition to performing the audit. The auditors provided detailed answers to our enquiries. After its own in-depth review of all documents, the Supervisory Board found no grounds for objection. We approved the results of the audit. On 1 December 2017, we followed the Audit Committee's recommendation and approved the consolidated financial statements and adopted the separate financial statements of Deutsche Beteiligungs AG.

The Supervisory Board reviewed the Board of Management's recommendation on the appropriation of the retained profit. After its review, the Supervisory Board agreed to the Board of Management's recommendation to distribute the sum of 21.1 million euros to shareholders and carry forward the residual retained profit of 160.8 million euros to the new account.

Over the past financial year, DBAG has disposed of six equity investments. Disposal proceeds that were, in some cases, well above average reflect the excellent work that the Company has been doing for many years now. The Supervisory Board wishes to express its greatest appreciation and special thanks to the Board of Management and all staff who contributed with maximum effort and commitment to that performance this year again.

Frankfurt am Main, 1 December 2017



Andrew Richards  
Chairman of the Supervisory Board